MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BEC1844 – MACROECONOMICS

(All sections / Groups)

7 MARCH 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** pages with **TWO (2)** sections only.
   Section A: Forty (40) Multiple-Choice Questions
   Section B: Three (3) Structured Questions

2. Answer **ALL** questions in both **Section A and B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. The primary economic function of the financial system is to
   A. keep interest rates low.
   B. provide expert advice to savers and borrowers.
   C. coordinate the actions of savers and borrowers.
   D. match one person's consumption expenditures with another person's capital expenditures.

2. A closed economy does not
   A. have free markets.
   B. trade with other economies.
   C. allow financial intermediation.
   D. All of the above are correct.

3. In a closed economy, what does (Y-T-C) represent?
   A. National saving.
   B. Public saving.
   C. Private saving.
   D. Investment.

4. The slope of the demand for loanable funds curve represents the
   A. positive relation between the real interest rate and saving.
   B. negative relation between the real interest rate and saving.
   C. positive relation between the real interest rate and investment.
   D. negative relation between the real interest rate and investment.

5. You receive money as payment for making a cake for your neighbour. This best illustrates money as a
   A. store of value.
   B. unit of account.
   C. medium of exchange.
   D. liquidity.

6. When a bank loans RM10,000, the money supply
   A. increases.
   B. decreases.
   C. does not change.
   D. may increases and decreases.

7. The money multiplier equals
   A. 1/R, where R represents the quantity of reserves in the economy.
   B. 1/R, where R represents the reserve ratio for all banks in the economy.
   C. 1/(1+R), where R represents the quantity of reserves in the economy.
   D. 1/(1+R), where R represents the reserve ratio for all banks in the economy.

Continued...

8. An increase in the money supply might indicate that the Bank Negara had
   A. purchased bonds in an attempt to increase the federal funds rate or overnight rate.
   B. purchased bonds in an attempt to decrease the federal funds rate or overnight rate.
   C. sold bonds in an attempt to increase the federal funds rate or overnight rate.
   D. sold bonds in an attempt to decrease the federal funds rate or overnight rate.

9. Money demand refers to
   A. how much income people want to earn per year.
   B. how much wealth people want to hold in liquid form.
   C. how much currency the Bank Negara decides to print.
   D. the total quantity of financial assets that people want to hold.

10. When the money market is drawn with the value of money on the vertical axis, if the Bank Negara sells bonds, then the money supply curve
   A. shifts right, causing the price level to rise.
   B. shifts right, causing the price level to fall.
   C. shifts left, causing the price level to rise.
   D. shifts left, causing the price level to fall.

11. Economic variables whose values are measured in goods are called
   A. dichotomous variables.
   B. nominal variables.
   C. real variables.
   D. classical variables.

12. When inflation rises, people tend to go to the bank
   A. more often, giving rise to menu costs.
   B. more often, giving rise to shoeleather costs.
   C. less often, giving rise to redistribution costs.
   D. less often, thereby lessening the severity of the inflation tax.

13. Suppose a stock market boom makes people feel wealthier. The increase in wealth world cause
   A. increase consumption, which increases aggregate demand.
   B. increase consumption, which decreases aggregate demand.
   C. decrease consumption, which increases aggregate demand.
   D. decrease consumption, which decreases aggregate demand.

14. Aggregate demand curve shifts left when the government
   A. decreases taxes.
   B. decreases military expenditures.
   C. creates a new investment tax credit.
   D. creates more hospitals for the public.

Continued...

15. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead to a long-run change in
    A. the price level and output.
    B. the price level, but not output.
    C. output, but not the price level.
    D. neither the price level nor output.

16. Sticky nominal wages can result in
    A. lower profits for firms when the price level is lower than expected.
    B. a decrease in real wages when the price level is lower than expected.
    C. a short-run aggregate supply curve that is vertical.
    D. a long-run aggregate supply curve that is upward-sloping.

17. Other things the same, continued increase in technology lead to
    A. continued increases in the price level and real GDP.
    B. continued increases in the price level but not continued increases in real GDP.
    C. continued increases in real GDP but not continued increases in the price level.
    D. None of the above is correct.

18. Other things the same, when the price level rises more than expected, some firms will have
    A. higher than desired prices which increases their sales.
    B. higher than desired prices which depresses their sales.
    C. lower than desired prices which increases their sales.
    D. lower than desired prices which depresses their sales.

19. A decrease in the expected price level shifts
    A. only the long-run aggregate supply curve to the right.
    B. only the short-run aggregate supply curve to the right.
    C. both the short-run and the long-run aggregate supply curve to the right.
    D. neither the short-run nor the long-run aggregate supply curve to the right.

20. Which of the following would cause prices to fall and quantity of output to rise in the short-run?
    A. Aggregate demand shifts left.
    B. Aggregate demand shifts right.
    C. Short-run aggregate supply shifts left.
    D. Short-run aggregate supply shifts right.

21. In recent years, Bank Negara has conducted policy by setting a target for the
    A. discount rate or bank rate.
    B. federal funds rate or overnight rate.
    C. size of the money supply.
    D. growth rate of the money supply.

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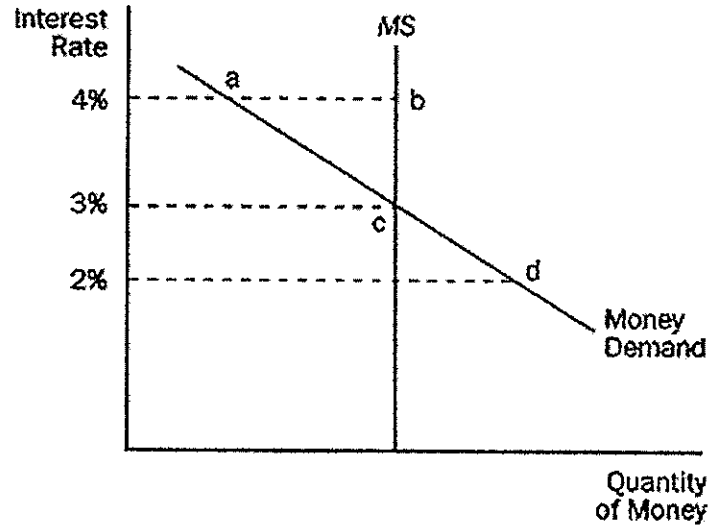
22. When the interest rate decreases, the opportunity cost of holding money
    A. increases, so the quantity of money demanded increases.
    B. increases, so the quantity of money demanded decreases.
    C. decreases, so the quantity of money demanded increases.
    D. decreases, so the quantity of money demanded decreases.

Figure 1



23. **Refer to Figure 1**. If the current interest rate is 2 percent,
    A. there is an excess supply of money.
    B. people will sell more bonds, which drives interest rate up.
    C. as the money market moves to equilibrium, people will buy more goods.
    D. All of the above are correct.

24. **Refer to Figure 1**. At an interest rate of 4 percent, there is an excess
    A. demand for money equal to the distance between points a and b.
    B. demand for money equal to the distance between points b and c.
    C. supply of money equal to the distance between points a and b.
    D. supply of money equal to the distance between points b and c.

25. The marginal propensity to consume (MPC) is defined as the fraction of
    A. extra income that a household consumes rather than saves.
    B. extra income that a household either consumes or saves.
    C. total income that a household consumes rather than saves.
    D. total income that a household either consumes or saves.

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26. Which of the following correctly explains the crowding-out effect?
    A. A decrease in government spending increases the interest rate and so increases investment spending.
    B. A decrease in government spending decreases the interest rate and so reduces investment spending.
    C. An increase in government spending increases the interest rate and so reduces investment spending.
    D. An increase in government spending decreases the interest rate and so increases investment spending.

27. Assuming no crowding-out effect or multiplier effect, a RM10 billion increase in government spending shifts aggregate demand curve
    A. right by RM10 billion.
    B. right by more than RM10 billion.
    C. left by RM10 billion.
    D. left by more than RM10 billion.

28. If the marginal propensity to consume (MPC) is 0.75 and there is no crowding-out effect, then an initial increase in aggregate demand of RM10 billion will eventually shift the aggregate demand curve to the right by
    A. RM10 billion.
    B. RM40 billion.
    C. RM50 billion.
    D. RM80 billion.

29. As aggregate demand curve shifts right along the aggregate supply curve,
    A. inflation and unemployment are higher.
    B. inflation and unemployment are lower.
    C. inflation is higher and unemployment is lower.
    D. inflation is lower and unemployment is higher.

30. If the Bank Negara decreases the money supply, then in the short-run prices
    A. rise and unemployment falls.
    B. fall and unemployment rises.
    C. and unemployment rise.
    D. and unemployment fall.

31. In the long-run, policy that changes aggregate demand changes
    A. only unemployment.
    B. only the price level.
    C. both unemployment and the price level.
    D. neither unemployment nor the price level.

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32. The natural rate of unemployment
    A. is constant over time.
    B. varies over time, but cannot be changed by the government.
    C. is the unemployment rate that the economy tends to move to in the long-run.
    D. depends on the rate at which the Bank Negara increases the money supply.

33. Net exports of a country are the value of
    A. goods and services exported minus the value of goods and services imported.
    B. goods and services imported minus the value of goods and services exported.
    C. goods exported minus the value of goods imported.
    D. goods imported minus the value of goods exported.

34. Which of the following is an example of U.S. foreign portfolio investment?
    A. Disney builds a new amusement park near Barcelona, Spain.
    B. A U.S. citizen buys bonds issued by the British government.
    C. A Dutch hotel chain opens a new hotel in the United States.
    D. A citizen of Singapore buys a bond issued by a U.S. corporation.

35. An open economy's gross domestic product (GDP) is always given by
    A. $Y = C + I + G$.
    B. $Y = C + I + G + T$.
    C. $Y = C + I + G + S$.
    D. $Y = C + I + G + NX$.

36. Domestic saving (S) must equal domestic investment (I) in
    A. both closed and open economies.
    B. closed, but not open economies.
    C. open, but not closed economies.
    D. neither closed nor open economies.

37. Other things the same, a lower real interest rate decreases the quantity of
    A. loanable funds demanded.
    B. loanable funds supplied.
    C. domestic investment.
    D. net capital outflow.

38. An increase in real interest rates in the United States
    A. discourages both U.S. and foreign residents from buying U.S. assets.
    B. encourages both U.S. and foreign residents to buy U.S. assets.
    C. encourages U.S. residents to buy U.S. assets, but discourages foreign residents from buying U.S. assets.
    D. discourages U.S. residents to buy U.S. assets, but encourages foreign residents to buy U.S. assets.

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39. In the open-economy macroeconomic model, if net capital outflow increases then the
    A. demand for ringgits in the market for foreign-currency exchange shifts to the right.
    B. demand for ringgits in the market for foreign-currency exchange shifts to the left.
    C. supply of ringgits in the market for foreign-currency exchange shifts to the right.
    D. supply of ringgits in the market for foreign-currency exchange shifts to the left.

40. When the real exchange rate for ringgit appreciates, Malaysia goods become
    A. less expensive relative to foreign goods, which makes exports rise and imports fall.
    B. less expensive relative to foreign goods, which makes exports fall and imports rise.
    C. more expensive relative to foreign goods, which makes exports rise and imports fall.
    D. more expensive relative to foreign goods, which makes exports fall and imports rise.

SECTION B: STRUCTURED QUESTIONS (60 marks)

Question 1

(a) State the quantity equation as in Fisher and what does each term in the equation represent?

(4 marks)

(b) Based on the quantity theory of money, what would be the impact of increasing the money supply by 10 percent?

(3 marks)

(c) Discuss **THREE (3)** tools of monetary control to decrease money supply.

(9 marks)

(d) With the help of a diagram, explain how a contractionary monetary policy brings about price stability.

(4 marks)

(Total: 20 marks)

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Question 2

(a) Discuss **TWO (2)** effects that explain the downward sloping aggregate demand curve when there is a decline in price level.

(8 marks)

(b) With the help of a diagram, discuss how the crash in stock market affects the price level and quantity of output in the short-run and long-run, other things the same.

(8 marks)

(c) Draw the money market diagram and the aggregate demand curve diagram to show the effects of reducing the money supply.

(4 marks)

(Total: 20 marks)

Question 3

Show the effects of budget deficit in an open economy by using the three-panel diagram; market for loanable funds, net capital outflow and market for foreign-currency exchange.

(20 marks)

(Total: 20 marks)

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